Vodafone Group

Analyst and Investor Conference Call

7 February 2013

Financial Highlights

Andy Halford

Chief Financial Officer, Vodafone Group

Good morning, it's Andy here. Good morning and welcome to Vodafone's interim management statement call. I am joined by Vittorio and a number of our colleagues here. I'll take you through the financial highlights for the quarter before handing over to Vittorio to update you on strategic developments and comment on the outlook, before we move on to Q&A.

So, let me start on slide 3: the highlights of the quarter.

- Group service revenue declined on an organic basis by 2.6%, or by 0.4% excluding MTRs. This growth is lower than the previous quarter, firstly due to a 1.6 percentage point decline in Northern and Central Europe compared to the previous quarter, driven in part by MTR cuts in Germany, and secondly a decline of 1.4 percentage points compared to the previous quarter in our AMAP region, driven primarily by a slowdown in South Africa.

- Data grew by 12.8% across the Group, driven by increasing smartphone penetration, which is now at 33% in Europe, up from 25% this time last year.

- Growth in emerging markets continued to be healthy, with Turkey, India and Vodacom partially offsetting the macro and regulatory pressures in Europe.

- Vodafone Red has now been launched in five markets to strong customer demand, with 2.2 million customers as of the end of January.

- In Verizon Wireless, service revenue grew by 8.7% during the quarter, and we received a £2.4 billion dividend, of which we are returning £1.5 billion to our shareholders via a share-buyback programme, which commenced in December.

- Net debt fell to £23.3 billion, mainly as a result of the Verizon Wireless dividend.

- Following our performance for the quarter, we confirm our full-year adjusted-operating-profit and free-cash-flow guidance.

On to slide 4, here you can see our performance by region for the quarter. Europe remains very challenging. In particular, we saw a deterioration of trends in northern and central Europe, which I will explore in more detail shortly. In AMAP, growth of 2.7% increases to 4.5% when the MTR impact is excluded. Momentum in AMAP continues to come from growth in customers, improving data penetration and stabilising prices, particularly in India. For the Group overall, the regulatory impact represented a 2.2 percentage point headwind to growth in the quarter, compared to 1.7% and 2.0% in Q1 and Q2 respectively. The growth in data and wholesale continues, although messaging and voice collectively contributed a quarter-on-quarter service-revenue decline of 0.9 percentage points. Capex for the quarter was £1.5 billion, and free cash flow was £1.2 billion.

On slide 5, you can see that the impacts of currency movements and M&A effectively neutralised each other during the quarter. Data continues to grow at around 13%, now contributing 16.2% to the Group's total service revenue. Although voice pricing remains under pressure, voice usage was up 10.6% this quarter, consistent with the growth over the last few quarters. Whilst messaging volumes continue to increase overall, revenues were down 7.9%. Looking ahead, the visibility between messaging, voice and data revenue allocation will become somewhat distorted, as price plans increasingly include unlimited voice and, therefore, the allocation per bundle changes. Roaming voice and data revenues were adversely impacted by 12% and 6% respectively, due to the decline in tourism in most of our European markets.

Turning to the next slide, let's take a closer look at each of our main markets in detail, starting with Germany. Against a backdrop of increased competition and a new MTR cut, German service revenues declined 0.2%, or an increase of 0.5% excluding MTRs. Data growth of 11% continues to be supported by increasing smartphone penetration, up 11 percentage points year on year to 32%. We continue to execute well in Enterprise, with service revenues up 2.4%. We continue to refine our approach to A&R spend, which has mitigated the weaker top line. On to LTE, we now have over 400,000 customers, including an additional 135,000 LTE mobile customers, growing strongly in the quarter, supported by the launch of new LTE-enabled handsets. LTE population coverage in Germany now stands at approximately 53%.

UK growth declined for the quarter by 5.2%, primarily driven by a further decline in consumer confidence, a weaker Consumer Contract performance, and further pressure on the Consumer Prepay customer base, which has declined 6.5% year on year, though we gained a quarter of a million postpaid customers in the quarter. Data growth of 6% is driven by a continued increase in smartphone penetration and in mobile internet usage.

The Netherlands: service revenue for the quarter declined 3.5%, driven by challenging economic and market conditions, especially within the no-frills space. Data growth of 23% is partly mitigating the decline in messaging revenues. Looking ahead, we are launching our Red tariffs in March, and we continue to get our network LTE-ready following the spectrum auction in December.

Turkey continues to perform strongly, with continuing growth across all segments. The customer base has grown 5% year on year, with ARPU growth of 10%, and a stable pricing environment. Turkey now has 19% smartphone penetration, which is driving strong growth in data revenue. Turkey's Enterprise business grew 41%.

Moving to southern Europe.

Italy: the ongoing macro conditions in Italy, coupled with strong price competition and large MTR cuts, all contributed to a decline in service revenue of 13.8%, or 9.3% excluding MTRs. Whilst voice and messaging service revenues have stabilised quarter-on-quarter, and outgoing usage increased, by 8% and 3% respectively, mobile-only service revenue declined 14.6% and fixed revenues declined 8.1%. Spend optimisation in the Enterprise unit has been a key focus following a steep decline in Enterprise service revenue of 10.5% in the quarter. We continue to have great success in Italy with the Vodafone One Net proposition, which grew strongly at 39%. Data revenue has slowed to 2%, but mobile-internet growth remains strong, and the data-attachment rate is now at 57%.

Moving to Spain, where the macroeconomic environment remains very tough and converged offers and MVNOs continue to gain traction, service revenue fell 11.3%, or 9.6% excluding MTRs. Against this tough backdrop, we have introduced our new Red tariffs, with the option to add DSL service to a mobile tariff. Data revenue growth remains strong at 18%, with smartphone penetration at 47%, up 11 percentage points in the last year. We have recently announced a significant restructuring in Spain.

Moving to our AMAP region on slide 8.

India grew at 9% in the quarter, a slight slowdown from the previous quarter, driven by new regulations being implemented into the market, including a new rule requiring all operators to verify all new customers, which has resulted in a lower rate of customer acquisitions in the quarter. ARPU continues to grow as voice prices stabilise and data penetration increases. We see early signs that 3G data is beginning to gain traction.

Vodacom service revenue growth slowed to 1.9%, with growth of 23% coming from the international businesses, and healthy customer growth right across the group. South Africa service revenue for the quarter declined 1.8%, primarily driven by a less aggressive summer promotion this year, increased competition, and our decision to withdraw from the prepaid calling card market. Stabilisation in data pricing in South Africa assisted strong data growth of 17%, with smartphone penetration growing strongly.

In Australia, performance remains weak. A large restructure of the cost base took place in November, which included a 35% headcount reduction. Investment in improving network quality remains a priority. Acquisition ARPU improved this quarter, following a change in commission terms, which encouraged staff to target high-value customers, and we have increased our focus on customer-value management. The single-RAN programme is now complete, which will enable us to deploy LTE in due course.

Finally, Egypt, which was stable quarter-on-quarter at 3.1% growth; however, looking ahead, the political unrest and economic uncertainty may have a slightly negative impact on consumer spend and visitor numbers for the country. Data growth remains very strong, at 25%, with data penetration now at 16%.

Turning to the US, Verizon Wireless had another strong quarter, with service revenue up 8.7% year on year, and overall ARPA rising by 6.6%. This was driven by a record of postpaid net adds in the period of 2.1 million. An increasing proportion of postpaid sales were smartphones, representing 87% in the quarter. In total, Share Everything plans now represent 23% of Verizon Wireless's retail postpaid base. Customer adoption of 4G LTE also continues to gain momentum. 4G LTE is now currently available to nearly 90% of the US population. Almost 50% of total data traffic is now on 4G LTE. In January, Verizon Wireless announced the sale of 700 MHz spectrum licences for $2.1 billion.

Now on to slide 10 for the Group's free cash flow and our balance sheet position. We generated £1.2 billion of free cash flow during the quarter, which was slightly lower than the prior year, due principally to foreign-exchange movements. Excluding M&A and foreign-exchange movements, free cash flow was up 2.7%.

Net debt fell during the quarter to £23.3 billion, boosted by the £2.4 billion Verizon Wireless dividend received in the quarter. Only £0.1 billion of the related £1.5 billion buyback had been executed by the quarter end.

The TelstraClear acquisition was completed in November. The £0.2 billion spectrum payment related to the Ireland, Romania and India auctions, and the fourth quarter will include payments for the Netherlands auction, and if successful, the UK and Czech auctions.

Finally, we have today confirmed our guidance range for the year, which includes adjusted operating profit to be at the upper end of the £11.1-11.9 billion range, and free cash flow to be in the lower half of the £5.3-5.8 billion range. We expect to group EBITDA margin to decline at a slower rate this year than last, supported by our cost-efficiency programmes and improving margins in India and South Africa.

Looking ahead to Q4, I would remind you of the reversal of the leap-year benefit and the increase of the MTR drag, which, combined will create an incremental quarter-on-quarter reduction of around 1.5 percentage points on top line growth. With that, I will hand over to Vittorio to take you through the remaining slides.

Strategic and Commercial Developments

Vittorio Colao

Chief Executive, Vodafone Group

Thanks Andy. So first, go to page 11. I would like to give you a brief update on our key areas of strategic and commercial focus. Firstly, clearly positive news on data, bundling, smartphone penetration and our new pricing plan, Vodafone Red. Data traffic across our network continues to grow rapidly. It's over 50% year on year. Smartphone data traffic is more than doubling, with mobile broadband dongle traffic instead continuing to decline.

We continue to push smartphone penetration, which has actually accelerated in recent quarters. Over half of our contract customers in Europe are now using a smartphone, and their data usage is increasing too, up around 30% year on year on a per customer basis. Financially, we are managing this transition well, with now nearly half of our European mobile service revenue coming from bundles – this is the right-hand part of the chart – up eight percentage points versus the third quarter of last year.

Finally and perhaps more importantly, Vodafone Red that I talk about at the media presentation: today we have launched Vodafone Red in five markets and we have, as of the end of January, about 2.2 million contract customers across Europe. The initial customer feedback here has been very positive, with clearly higher net promoter scores. To give you an example, in Italy we have 10 points higher improvement just for the Red customers. The revenue trends are encouraging, with the balance of down-traders versus up-traders being a little better than what we anticipated, and any slight ARPU dilution being more than offset by volume gains, with our share of gross adds being now up 20% in Germany, just to give you an example.

Now, Vodafone Red is not just a consumer story. Over 25% of our gross adds so far have been in Enterprise, and we will be addressing the prepay market with a Red-like approach in the coming months, as we introduce a range of enhancements to the proposition and take it to many more of our markets. I will talk more about Red at the full year results.

Turning the page to slide 12. In terms of 'future-proofing' our network, we have made good progress. We have now rolled out single-RAN technology to 48% of our European footprint. This is up 20 percentage points year on year. The proportion of our backhaul traffic which is high-capacity and also very good, with over 50% of our estate now covered. On key utilisation metrics, we continue to remain comfortable. We have peak utilisation at only 7% across our network today. This has consistently been the case, despite the data-usage increase that I talked about. Downlink speeds across our European HSPA footprint have also improved considerably, as we continue to make good progress on supporting higher-speed data to deliver an excellent experience to our customers. We now have 97% of our footprint on 14.4Mbps and 36% on 43.2Mbps.

As a result of these ongoing investments, our customers are now enjoying an increasingly good experience on HSPA+ and, where we have it, on LTE. On LTE, we have made good progress. In terms of commercial launches, we now have LTE offerings in six countries and we are preparing for LTE in a further five markets. We already secured the majority of the spectrum required to meet coverage and capacity needs. Over the last three years, we have invested nearly £4 billion in spectrum in eight countries, and have existing spectrum in a further 10 markets that can also be used for LTE. The majority of this spectrum has been forward-purchased for an average of 15-20 years and, despite this, we have been able to maintain a strong balance sheet position, as Andy has described.

Finally, with the continued investment we have made in the network, we are well positioned for the rapid deployment of LTE in this country at a relatively low incremental cost, given the investment we made in single RAN and backhaul capacity.

I will move to slide 13, Enterprise. In Enterprise, our new organisational structure is in place, allowing us to better address our customer needs, to leverage our scales and geographic footprint, and to fully recognise the growth opportunity from offering converged services to Enterprise customers.

A few words on Cable & Wireless: in November, we announced that the integration of Cable & Wireless Worldwide would be accelerated, given the better-than-expected state of the business and the strong demand experienced from combined products and services. The integration of the senior management teams is now complete. Our programme to stabilise Cable & Wireless operational performance is also yielding positive early results, with the volume of high-impact customer-service issues decreasing by one third since August. The key for synergies network programme to connect our base stations to the Cable & Wireless network has commenced, and the rationalisation of the combined Vodafone/Cable & Wireless Enterprise product set is underway.

In the quarter itself, we continue to see strong demand, with Vodafone Global Enterprise increasing the total number of connections it has to 5.7 million. This is a 12% increase year on year. In machine-to-machine, we won a big new contract with Caterpillar and further extended our ConnectedDrive plan with BMW to a further 38 countries. This takes the total number of connections that we have in this area to 9.7 million – a 42% increase year on year. Finally, in One Net, the unified service product, the number of users has increased by 33.4% to 2.4 million.

A qualitative comment on Enterprise contract: both the value and the duration of the contracts that we win are also increasing. It's normal, because businesses are looking for delivering more transformational changes to their own operations and, as a result, they use Vodafone to drive down their costs.

The next slide is on convergence. Here, there's a debate surrounding convergence, specifically in the consumer base. It has intensified over the recent month. As a result, let me spend a few minutes reviewing the latest developments in this area and reemphasising our approach to convergence. In Europe, it is clear that operators in some countries are accelerating their convergence strategy. This is most evident in Spain and in Portugal, where incumbents have launched quad-play offers. Also, cable MVNOs are active in this space throughout Europe.

So, customers' appetite for convergence product is being successfully stimulated. This was, I would say, already established in Enterprise and it is now becoming more visible in the consumer market, partially also because of the need to optimise household spend throughout Europe. In those specific markets, we have been able to launch competitive quad-play offerings, even if we are currently unable to compete on the fibre-based product.

So, as I highlighted in our half-year results, we are confident that the EU, let me call it fibre/anti-trust regulation will provide some protection for non-incumbent operators, albeit effective enforcement will vary by country and we will, therefore, not count only on regulators in this phase.

So, as a result, our strategy, I confirm today, is to provide unified comms services using a country-by-country approach, and here we'll do it by doing different things:

- First of all, of course, accelerating the successful Enterprise unified comms strategy, the One Net example that I already described.

- Second, negotiating wholesale access to NGN and access infrastructure with regulatory protections where we feel that this is solid. In the slide, we put BT in the UK as an example.

- Third, and/or considering fibre deployment, possibly via co-investment but also alone. Here, the example would be Portugal, where I have authorised our operation to increase our FTTH deployment. We cover today about 200,000 homes, and we have between 30,000-40,000 IPTV customers. Here, we are out to increase our presence directly owned with fibre to the home in the main urban areas; or in Italy, in a different way, through the Metroweb agreement.

- Finally, and/or we can also add value, when it's value-creating, acquisition of assets, Cable & Wireless or TelstraClear that Andy has referred to, is the fourth thing.

Now, of course a combination of these strategies also at market level is and will be possible. So, overall, the objective is to provide unified services in every market where there is demand.

Moving to page 15, during the quarter we continued to make good progress also on driving efficiency and standardisation across the Group and implementing cost-saving initiatives in order to deliver the stated £300 million organic opex-reduction target by the end of next year. These initiatives include:

- Firstly, the reduction of network opex. We have begun our UK active sharing with Telefónica and we are targeting 18,500 sites by 2015. In Ireland, we have entered into a passive sharing agreement with Hutch, and we are targeting 2,000 sites by 2015.

- Second, we are working on the IT front, software and application efficiencies. We continue to centralise software procurement and we stop supporting legacy applications, both of which have clear opportunities for savings.

- Thirdly, our shared-service programme has been accelerated. To date, 7,500 employees have been migrated, driving process efficiencies and clearly a labour-cost arbitrage.

- Finally, we are on track to deliver our 10% reduction in support costs.

Finally, on the last page, the outlook for 2013: across most of Europe, I expect macro, regulatory and competitive headwinds to continue. As I highlighted earlier, also convergence in Enterprise and increasingly in Consumer is gaining more traction. And we also expect, on the positive, healthier competition between ecosystems, as the likes of BlackBerry and Nokia mount their comebacks, and Windows Phone gains in popularity. LTE will become, even next year, increasingly more important, as new handsets and commercial offerings enter into the market, and the tablet adoption is set to reach the mass market with all the new models being presented.

So, against this backdrop, what actions are we taking to mitigate the headwinds and to support the current and future growth opportunities of the business?

- Firstly, as I said and I want to reiterate again, we have successfully launched Vodafone Red and we expect the rollout of this programme to continue and be enhanced in our other markets during 2013.

- Secondly, we will continue to invest in the network to ensure that we are ready to support the rapid increase in data and the rollout of new technology.

- Thirdly, we'll look to both strengthen our position in convergence and manage our mobile-operating-systems relationships more profitably.

- Finally, we continue to focus on driving costs down across the Group, and we are on target to deliver our £300 million organic cost-reduction target in Europe by '13/'14.

Thank you for listening. Now Andy and I will be very happy to take your questions. Operator, back to you.

Questions and Answers

Simon Weeden, Citigroup

I've got a couple of questions. One is: I wondered if you wouldn't mind just elaborating a bit on a comment Andy made early on, on the transition to unlimited voice plan will have a visibility impact on the messaging and voice weight. I just wondered if you could spell out a bit more on what it looks like if you go from 100% postpay not on unlimited plans to something more like 50% or 60%. Are we going to see a slowdown in data revenue as a result of that, for example?

The second question was just on Germany, where I think, if I'm connecting up the right comments, you were talking about quite a big improvement in share of gross additions on postpay resulting from Red, and maybe I've got the wrong country but, at the same time, we saw a negative net add quarter. In any case, perhaps you could just expand a little bit on the competitive dynamic in Germany and what's happening. Thank you.

Vittorio Colao

Yes, Simon. Let me take the first one and then I will leave Andy to clarify the second one. First of all, you are really basically burning my speech in Barcelona at the Mobile World Congress, but I will give you, nonetheless, the answer. I really think that, through Red, we are addressing a big secular change in communications. Customers are very happy to have unlimited voice and unlimited SMS, and this addresses, in a drastic way, the whole over-the-top discussion. So, it is a strategic move. We have customers who are super-happy with this and it's also a very good thing because it brings back into our hands a service that otherwise could have been split between us and the over-the-tops.

Clearly, there will be, especially now, in the initial phases, some dilution effects, because the first ones who take it are, of course, the ones, especially in UK and in Italy, who are receiving higher bills, but then this is the beginning of a programme. You can look at the US as a good example, where the ARPA, as Andy has mentioned, keeps going up, where you can enrich your offers, and where you can, basically, build on the trend of the future, which is data, really, and increase the entertainment and product usage.

So, I think it is a broader thing than just the introduction of a very successful pricing plan. I think it is the industry – or I hope the industry but for sure Vodafone's answer to the move to all-IP networks and ubiquitous, unlimited communication. But this is my speech in Barcelona, so please don't repeat it.

Andy Halford

Simon, just on your first question, I'll try to do the simple version of this. Clearly, when people are just paying for a bundle, trying to decide how much of that is for the voice part, how much is for messaging, how much for data is a little bit arbitrary. The rules say we need to look at how much one would pay separately for those individual components if one were buying them separately, and allocate on that basis. The concept of buying separately is becoming much more difficult, as unlimited becomes much more proliferated, both on messaging and now on voice, and hence getting separate points of reference is not becoming the easiest thing in the world. So, we are actually giving some thought just to how we might look at revenues going forward, and see whether there is a more informative way of looking at them, but it will have a slightly depressive effect on messaging, and hence move slightly more into the other spaces as we go forwards.

Simon Weeden

Germany?

Andy Halford

Sorry, Germany, your question was what – on the net-adds side of it?

Simon Weeden

The net and gross add balance seemed to be receiving different directional comments.

Vittorio Colao

Yes, let me pass the microphone to Philipp Humm, who is among the people who are in the room. Philipp?

Philipp Humm, Chief Executive Officer, Northern and Central Europe

Hi, Simon. Simon, the share of Red plans of our overall gross adds increased, so it's now up to 67% in the segment where we launched Red, which is basically consumer postpaid at this point in time. So, the comment was not meant to say that, overall, our gross adds went up because of that, but it's really the share. We continue to focus on high-value customers and we're not trying to heat up the market right now in Germany from a SAC point of view.

Akhil Datani, JPMorgan

Just a couple of questions, please. Firstly, on restructuring, you mentioned that you've taken initiatives in a couple of markets, like Spain and Australia, so I just wondered if you could help us understand what the quantum of restructuring charge could be this year, and maybe if there's anything we should think about into the subsequent year as well.

Then, secondly, on KPN, we've seen an interesting announcement or development in that market from KPN in terms of their equity raising. The comment from them has been that they have been more commercially aggressive already into Q4, so I just wondered if you could help us understand whether, in either the German or Dutch markets, you are seeing any change in competitive behaviour from them and whether that leads to any change in dynamic as far as you're concerned.

Andy Halford

Let me take, Akhil, the first one. So, the restructuring: we've said, next year, we'll take £300 million out of the run rate of the [European] opex. There clearly will be costs associated with doing that. At the moment, I'd be thinking we would be looking at getting a payback of about a year on that, so, put it the other way round, probably a charge of around £300 million at the end of the year, but then getting that paid back within a 12-month period.

Vittorio Colao

Yes, Vittorio here. On the KPN question, I agree with you that the definition of their announcement was interesting yesterday. To be honest, I read their words more as a statement of intention for the future rather than a description of the past. I would say there is a little bit more activity on the B2B front from KPN. I think, in the Netherlands, we are still doing well and, in Germany, it's not KPN who has the biggest part of our focus and attention. But of course, I read more the prospective implications of their statement rather than finding a huge amount in the past quarter.

Justin Funnell, Credit Suisse

Just on tiering, obviously the move to Red has started and it's probably early days. I'm just wondering what your early thoughts are now on data-tiering. I think, when you first moved into these sorts of price structures two or three years ago, there was quite a disappointing uptake of higher tiers and not many customers buying a bigger tier every year. I'm just wondering if you're starting to see a better trend – more customers buying a bigger data bundle in the last 12 months.

Secondly, what your thoughts are about as you evolve these plans going to more of a shared-data, 'Share Everything' structure, which seems to be driving very good growth at Verizon Wireless? Do you think there's the same opportunity in Europe? Are there, for example, a lot of tablets that are yet to be attached to the mobile network where you could get some upside?

Vittorio Colao

Yes, Justin, thank you for the question, as always. Let me say we have evolved our thinking on tiering, mostly as a consequence of lessons learned in the US and also the role of the over-the-top players in Europe. So, we still believe and we have evidence that, as I said in my speech, that customers are using data more and more in Europe. I think the individual level is going up, and that's good, because that means that there is more of a trend towards the American, if not the Korean, levels. So, I do believe that, over the future, as Andy also said, we will be looking at ARPU more and more as the real indication of the value delivered to the customer, and the customers will start thinking 1 GB, 2 GB, 3 GB: 'Whatever is my level, I will buy whatever package is there.'

The approach that we have taken for Red is, for the time being, more to make sure that, when the customer gets out of the shop, they don't have to immediately upgrade, so they feel worry-free for a while, and then a volume increase will basically push them into whatever price bucket is the right one. So, it is still a tiering approach. It's on the data component and it is more generous than what we started with. You remember we started with 300 MB, 500 MB; we are more kind of around a 500 MB, 1 GB recommended package.

On the evolution, as I said, Red is not a pricing plan; it's a strategic perspective, so we will expand it. We will extend it in several directions. For sure, prepaid will be covered, and will be covered in smart ways, which, by the way, requires quite a bit of IT expertise, which is good. I will not comment specifically whether it will be exactly the same as in the US or with different variations. You have to keep in mind that the US is a market that has been used to family purchasing and family discounts for many, many years. In Europe, instead we have prepay, which is the classic entry product for the younger part of the family. So, there might be differences but the philosophy is the same.

Nick Lyall, UBS

It was a question, first, on Spain, please, on the subscriber losses in the churn. I wondered: is it possible to explain how much you think is due to the previous subsidy cuts and how much is due to at least a lack of fixed presence? If there is a problem on fixed, what do you think the problem is? Is it brand or regulation and network, and where would it fit on slide 14, please?

Secondly, is it possible to ask just on Verizon Wireless quite a blunt question please? In principle, are you considering any changes to the Verizon shareholding if it gave you more flexibility to buy back shares, cover the dividend faster, or to buy fixed in Europe?

Vittorio Colao

Yes. The first question requires a really long answer; the second will be much shorter. First of all, on Spain, as I said, there has been an impact of converged offers in the market. We have responded with Vodafone Red inclusive of DSL. I have to be honest: we have less strength than Telefónica in that space and we have less credibility than Telefónica in that space, so we have a good early answer, but I think all the operators, not just Vodafone, have clearly seen a decrease in the segment of the converged offers due to the Fusión offer. In the segment of the pure mobile connections, or let me say for those customers who still buy pure mobile, we're doing very well in Spain at the high end with Red, and we're losing in the mid-to-low end to let me say MVNO, low-frills-type, like, I think, most of the market.

So, you can say that the Spanish market is really becoming three things: there is a high-end mobile, there is a converged, and there is a low-end, low-cost. The economic conditions of the market and the economy unfortunately, clearly, give different weights to the different offers. We are not able, as I said today, to replicate the fibre-based offer of Telefónica. I think it's unfortunate and it's wrong from a regulatory point of view, so we will fight that battle, but we will not just rely on regulatory protection, because otherwise we could become very old from that.

On the Verizon question, first of all we are pleased with the performance of Verizon, which keeps being a terrific asset, and a terrific asset whose benefits are clearly accruing now also to the Vodafone shareholders. The board regularly looks at the situation – when I say 'regularly', I mean really regularly – and, of course, we keep discussing with Verizon the future of the partnership, how to optimise it, whether it should continue or not. When we have news, I'm sure we will update, but, for the time being, that's where we are.

James Britton, Nomura

I had two questions, please. Could you possibly update us at this stage on the board's thinking on the forward dividend policy? Is consolidated cash flow still a relevant measure for dividends, given the contribution of Verizon Wireless to your bottom line? That's the first question.

Then secondly, on the accounting changes that you reference, can you just explain the reasons behind the £400 million cash flow adjustment from the accounting changes for March '14? Is this actually linked to the 4G licence payment in Italy or is this £400 million number a good guide for the potential adjustment going forward?

Andy Halford

Let me just take them in order. Obviously, we're not giving guidance now on future dividend commitments. That's a decision that the board will take in a short period of time. The current 7% [growth in dividend per share] expires in May, as you know. I think what I would say is the board are going to look at this holistically and, obviously, as would not surprise you, will look at the cash flows from our controlled businesses, the dividends, the spectrum payments, the dividend commitment out etc, in forming a view. The board are very clear that the ordinary dividend is the primary form of remuneration for shareholders and that many of those shareholders are very keen that we would be maintaining that as we go forwards. I think, at this point in time, I'll leave it at that and, obviously, when the board deliberates on that, we will let you know what happens.

Your second question on the change of accounting: we'll publish more pro-forma information on this, but, on the cash side of it, the change is actually not to do with spectrum payments or anything like that; it is just that, on Italy, we will move to, essentially, a cash-received basis, as in our share of the dividends that are paid out of the business, rather than just doing it on the proportionate cash flows generated. So, to the extent that the dividend pays out all the cash, it will not make much difference; to the extent there is a difference between the dividend and the cash generated, then it will cause a slight difference. It is the way the reporting requirements are changing; absolutely nothing substantively is changing about our ability to get cash out of the business at all, and I think that is the key point to be aware of there.

James Britton

Can I ask if that £400 million is a good guide for the adjustment as of next year?

Andy Halford

It all depends on the dividend payments out. So, year by year, it could change a little bit. As I say, we'll do an update shortly on that, but, substantively, we absolutely can influence and control the cash dividends out of that business as much as we ever could in the past, and there is no change. It is just purely a reporting issue.

Robin Bienenstock, Sanford Bernstein

I have two questions, if I may. The first is: you said that Red isn't a pricing plan; it's a strategic perspective. But I guess I'd like to know whether you think that it's strategic perspective rather than market structure that's going to make European revenue growth catch up with American revenue growth.

My second question is more of a high-level question, which is just: some of the largest telecoms groups in the world are getting bigger. We've seen AMX, SoftBank and now AT&T talking about getting bigger, so I'm wondering whether you think that scale is going to be more or less important in three to five years' time.

Vittorio Colao

The first question, Robin: the world is not white or black, or either/or. The world is also made of and/and and other things. So, there are two angles here. It's not that the strategic perspective takes away the validity of the industry structure, nor vice versa. What we are facing is a big change of network and technology. We're going to flatter networks, IP – all the things that we know, over-the-top players. The pricing and the strategic approach to this is very important, and it's very important to define the role of the relationship between the operator and the customers in the future. That's why I said Red is not just a pricing plan; it's more because it is enabling customers to do what they want, and setting them up to use more and more our services, like it is the case in the US.

So, in that sense, of course, it is very important. It's not an either/or. If you ask me if an industry structure helps, of course an industry structure helps and it's very important, so you need to work on both. Therefore, to your point, also the industry structure is very important in Europe, and the way operators invest and treat their investment and the requirement on return on investment and the price are linked in this sense. So, it's not an either/or; they are both very important.

On the scale thing, again scale is important. Scale in the relationship with suppliers is important. We see it on a daily basis with continuing requests from our partner markets to be included in our purchasing agreements, and a not totally enthusiastic response from our suppliers, which clearly indicates that there is an advantage in scale. Same thing with Verizon, where we keep having cases where either one of the two partners finds out that you can save money or get more out of suppliers, so scale has importance and will have an importance.

Of course, again, it's not an either/or; you also need to be very focused on local-market conditions, because, if, in a local market, you're not taking into consideration what maybe a smaller player does from a competitive point of view, you might find yourself with savings on the cost side but not customer loyalty. So, it's not black and white; you need to do both.

Andrew Beale, Arete Research

I just wondered if you can talk a little bit about what Red tariffs do to your absolute EBITDA per subscriber now and in the future. I guess I'm thinking that you're getting a little bit higher fixed ARPU, a bit less variable ARPU, perhaps a little bit more SAC, and out-payments in the short term, but longer term you're obviously taking away the out-of-bundle decline. So, I'm just wondering what sort of breakeven profile you see on those tariffs.

Vittorio Colao

You basically gave my answer, thank you, Andrew. You missed one small thing: in the short term, what we measure is ARPU dilution but also EBITDA dilution. In the short term, in markets where termination rates are still a factor, we might get also a little bit of EBITDA dilution, because those customers are liberated and they make more cross-net calls, and this might imply that we get, on those segments, a little bit of imbalance of incoming versus termination rates paid.

Now, I always say it's bad; in the short term, it's good, because the more people say, 'I call you because, with my Vodafone Red tariff, I don't pay', the more you convince the other that maybe also the others should go on the Vodafone Red thing. And with mobile termination rates today, unfortunately, becoming less and less relevant from a P&L point of view, eventually it's not a very… Short-term could be bad but it's not a wrong strategy.

So, everything else you said is right: more fixed commitment, lower churn. In the short term, you can have some SAC, because they get better phones. Red is also – and again this is another piece of my Barcelona speech – a different way of presenting our service to customers. A big discussion about subsidies, the Spanish model and so on. At the end of the day, the way we are now changing the sales process is you first pick your price plan, then you add your phone, and you can choose A, B and C. It makes sense because we now have A, B and C, and we not only have AA or A, and it starts with A. So, it's more than just the things that you said, but it is essentially the things that you said.

Andrew Beale

Can I just ask a little bit about the costs? The cost-saving programmes: you've indicated that you will increase the restructuring charges but you haven't changed the cost guidance. Is that just because it's not a material increase in the restructuring charges or is it that this is something for next year's guidance?

Andy Halford

Andrew, what we've said is that the opex for next year, excluding restructuring charges, we are expecting to get the ongoing [European opex] down by £300 million. What I said earlier is roughly/roughly, there will be a charge of £300 million this year in order to execute that, but, by inference, it's a 12-month-or-thereabouts cash payback.

Andrew Beale

So, the charges are not increasing versus what you had said at the full year.

Andy Halford

No, I don't think we'd put a full-year number on it previously.

Nick Brown, Espirito Santo

Two questions, please. Firstly, if I can follow up on Germany, KPN has indicated it's going to be even more aggressive this year in fighting for market share in the consumer segment. Given some of your other competitors might respond in kind, will you be happy to accept a certain level of market-share loss to preserve margins?

Secondly, the weakness in the UK looks to do with more than just macro weakness. I think you said prices are coming down from a relatively high level. With the mobile spectrum auction and 3 indicating it's going to be aggressive in 4G pricing, how do you think you can stabilise service revenue declines here?

Vittorio Colao

Why don't I take the last one, which is more strategic on 4G, and I let Philipp Humm take the Germany/KPN thing and the UK one? I really would like to keep it at a high level. First, 4G: we are still, in some markets, paying for the spectrum, or not even have the spectrum. I think it is a premium service. I share the Everything Everywhere stated position. In Italy, in Germany, in Portugal, we have a premium on 4G, and I think it would be healthy for the return on the capital that we have or will commit to put and position 4G at a premium. Of course, you must deliver the service, so the service must be a better service, in which I do believe. So, I am more for there must be, at least initially, a better return on 4G customers, who, by the way, seem to be willing to pay. Now, other players might have different policies. It's good for their shareholders? – we will see.

The same comment a little bit on Germany: it's a main market. We are not willing to give up value customers – or customers who have long-term value with us. We are very, very keen to have a strong market position. I said Red is part of it. It will be extended; it will be improved. But here we are really focused also on the value that these markets have to create, and the capital amount that is put on those markets. Having said that, for the details of the answers, I think Philipp is more appropriate to give an answer.

Philipp Humm

Maybe just to address both questions on Germany and the UK, in both cases we're really focusing on maintaining and improving our market share, continuing to focus on Red and on high-value customers, network improvement and all those things which really enhance our brand. We're not really interested in heating up in any way the market, but we will obviously have to observe what the competitors are doing in the respective market and then decide on our answer accordingly.

Paul Marsch, Berenberg Bank

I have two questions. Do you think that Q4 could be the low point for the trend on organic service revenues for the Group? It feels like service revenue momentum in India could possibly improve; South Africa, judging from the call yesterday, it sounds like, as some of the calling card abuse factors fade, you might get some improvement there. So, I'm just wondering if we should be looking at Q4 as the low point in the declining trend.

Then, specifically on Spain and the fibre-wholesale challenge, is the problem in Spain for you that you can't make a margin on the fibre tariff that Telefónica has introduced, or is it actually the access to the physical infrastructure that's the problem? And when will you be launching your challenge to the regulator in Spain?

Vittorio Colao

Let me take the second question, then maybe Nick Read can give some directional answers on South Africa and India. I doubt that we give quarter-by-quarter guidance on next quarter and which one is the low point or things like that, but maybe there is value still in commenting on how India and South Africa are going.

On Spain, the issue is not the physical access; it's the pricing level and it's the operating conditions around it. VULA type of access is something that can look good on paper and be horrible operationally, or can be great operationally but leave you zero margin and, therefore, zero incentive to do it. As I said, we are challenging it, so we are already active locally, and once we have exhausted the local process, we will go to Brussels, and Brussels, I'm pretty sure, will have a much higher sensitivity to this than the local authorities. Having said that, that's not going to be our only alternative, because, of course, I don't want to have grey hair when the solutions are found. Therefore, we'll also work on alternatives.

Nick, not with quarterly detailed guidance by quarter answer, but overall, India and South Africa comments.

Nick Read, Chief Executive Officer, Africa, Middle East and Asia Pacific Region

What I'd say is that, yes, I think, from a South Africa perspective, if you exclude the effect of the leap year, you may start to see some marginal improvement into Q4 over Q3. Specifically talking about India, we have suffered a hit from the consumer protection regulation and new subscriber verification rules, which will continue to dampen in the fourth quarter on top of the leap year, so I think it will be more into next fiscal year you start to see the improvement.

Paul Marsch

Can I ask a follow-on?

Vittorio Colao

Sure.

Paul Marsch

I listened in to the call yesterday from Vodacom, and M-Pesa seemed to be accounting for almost 20% of Vodacom's international growth. It was four percentage points of the 22% international growth from international. Management is saying that it's 40% EBITDA margins. Why shouldn't I be getting quite excited about reading across from that to your launch of M-Pesa in India?

Vittorio Colao

Well, first of all, if you get to be very excited about our launch of M-Pesa in India, feel free. I do believe it's a great thing. Honestly, the power and the opportunity coming from mobile money transfers in emerging markets is absolutely evident, and the positive cases of not just Kenya now but Kenya, Tanzania and the launch that we are making in other markets actually are there. In terms of detailed economics, I'm not sure how the maths works. Nick, do you want to comment on that? It seems that we cannot extrapolate African conditions into India.

Nick Read

No, exactly, the operating model and business model varies by country, depending on the regulatory conditions.

Vittorio Colao

The regulations in India are different and we have a bank partner there and you cannot take the money out. There are many other differences, but please keep your excitement on the concept and the customer acceptance, because I agree it's great. I think the economics will be, again, country-by-country defined.

Jerry Dellis, Jefferies

Thank you for taking my questions. Two, please: firstly, I'd just appreciate your comments on the recent statements from Hutch UK management that they don't intend to price 4G at a premium. They've already set, I think, quite an aggressive price point of about £36, including VAT, so maybe £30 ex-VAT, for what, effectively, is unlimited voice and data, with a heavily subsidised device. Given that your contract ARPU today is about £32, I just wondered how you think you will be able to push that up going forward.

Then the second point is really just to do with termination rates. I suppose we're rapidly approaching quite trivial levels of MTRs across Europe. We've seen what's happened when that occurred in France and, more recently, in Italy. Just thinking about how you think you'll preserve your scale as your on-net benefits begin to erode in more markets going forward.

Vittorio Colao

I think the second is, Jerry, an easy answer. It's exactly why I said Red is a change. We played with Red, at least in most of the cases, ahead of the competition. As I said, I want customers to be happy, to be worry-free, and we're replacing gently and gradually the concept of 'I'm staying with Vodafone because I have a great network and an on-net advantage' with 'I stay with Vodafone because I have a great network and a great pricing plan, worry-free. I can call everybody.' Of course, it requires more investment – all the things that I talked about for probably the last year – great shops, great experience, better customer care, everything else that supports a new positioning vis-à-vis the customers. So, you're right, and that's why we are doing what we are doing.

On Hutch, listen: everybody does what they want. We will play it in the market. We will see. We have plans on how to improve, increase, enhance customer advantage on Red. Eventually, we will always be competitive. If the UK market will be less profitable than others – by the way, it is already less profitable than others – we cannot comment on other people's strategies. Philipp, is there anything more that you can add?

Philipp Humm

Maybe just a comment: we continue to focus on our quality attributes. If you take our Red plans, again we have, for £37, unlimited voice and texts and 1 GB, including a device, so I think we are, from that point of view, already competitive. We were always able to sustain a price premium as a quality brand, and we will do whatever is needed to continue to enhance the quality of our brand, so we can continue to sustain a price premium.

James Ratzer, New Street Research

I have two questions, the first one which is following on from the last on the UK business. You say in the statement you've seen lower out-of-bundle usage and you also say you've seen positive uptake of Vodafone Red. Are those two statements directly linked to each other? And I was wondering if you could, therefore, say what percentage of your base in the UK now take Vodafone Red and whether that means more revenues in the UK could be at risk of that trend.

The second question was just to go back to another issue you raised earlier, on your stake in Verizon Wireless. Do you and the board think that your value of the Verizon Wireless stake is fairly reflected in the current share price, and does the fact that you're buying back stock make me believe that you think it's not fairly reflected? What do you think is the best way to get it potentially fairly reflected in the price? There has been more commentary from Verizon about doing a deal. Do you think some form of compromise deal is the best way to unlock that value gap?

Vittorio Colao

First of all, on the UK, it's a combination. It's not only that, but it's a combination. So, for sure, we have less… The moment where you have more Red customers, by definition you have less out-of-bundle, because out of unlimited there is nothing. So, mathematically, you cannot have out-of-bundle, and there is a little bit of optimisation and lower segments, I would say, attitude to optimisation and to saving and all these things. Honestly, how much is one and how much is the other is difficult to say.

I can tell you that – and again this is a little bit ahead of what we wanted to do today – Red is today just a bit less than 10% of our customer-base-penetration; higher in consumer contract, lower in business. Therefore, it will continue going up. My intention is to have Red representing, at the end of the next financial year, a pretty relevant part – not the majority, of course, but a pretty relevant part – of our revenues. As I said, we have it now also in Enterprise, not everywhere; we will have it everywhere in Enterprise, we will have it in prepaid, and eventually also the question of how much is Red will be difficult to answer because it will be, basically, the new pricing framework for Vodafone.

On the Verizon thing, we keep discussing. It's difficult for me to say whether the value is fairly reflected, because I should now exactly how much is attributed to Verizon and how much is attributed to us. Depending on which one you set first, the other one is probably undervalued, but difficult to say which one of the two is less appreciated. Of course, the board keeps looking at how to make sure that the true value of our assets – all of our assets, not just the Verizon one – is reflected in the stock price.

Nick Delfas, Morgan Stanley

First of all, you said you will not count only on regulators to solve the convergence problem. I guess this could either mean wholesale agreements with cable companies or M&A. If it does mean M&A, can you issue some kind of commitment not to issue new shares at the Plc level? Obviously, the rating of your shares is low compared to most things you might want to buy.

Secondly, you're starting to have a real LTE base in Germany. How does those customers look in terms of usage per month, and how do you think that will change the competitive environment, and do you think that could actually reduce the need to worry about convergence?

Vittorio Colao

Thank you, Nick, for your questions. That gives me also the opportunity to offer Steve Pusey the opportunity to make some comments about usage of LTE customers in Germany and how it looks like.

On the point we are not just relying on the regulators point, I can take the easy example of Portugal. I do believe that the Portuguese authorities should ensure that there is appropriate wholesale of fibre, but, at the end of the day, as I said, we just reopened the works for extending our fibre coverage in Portugal. We will do more Lisbon, more Porto, and more in the other cities, and we will invest our own capital, and not even co-invested, probably. So, we clearly will have dual strategies in most places.

Clearly, M&A, as in the case of TelstraClear or Cable & Wireless, is on the cards, and it's pure speculation to discuss things that are not in front of us or not even getting close to the funding question that you are raising. But as I said, we keep all possible alternatives open.

On LTE, Steve, do you have anything to say?

Stephen Pusey, Chief Technology Officer

Good morning, Nick. Quick answers for you. As you heard earlier, the base, one could consider in two parts: the fixed/mobile substitution base, and the pure mobile base in terms of traffic utilisation. On the fixed base, we are seeing traffic levels of about 13-13.5 GB per month, reflecting quite healthy fixed usage, and that looks like a normal rural-moving-towards-suburb and DSL base that one would find in most countries, so it's certainly acting as substitution there as one gets into the cities and their much larger usage requirements and entertainment requirements, I don't think it could act as a sole substitution for a converged offer.

Mobile usage itself is slightly up on the general 3G usage, so that's healthy, reflecting probably slightly faster modems, but it's not spectacularly different on today's traffic levels that we see from very aggressive 3G users in inner cities etc.

Lawrence Sugarman, Liberum Capital

Just a couple of questions on India, following up on questions asked before: it seems that there have been some moves on pricing in a more positive direction. I just wondered what your views on those were and whether you think this is the start of a more positive trend.

Secondly, there are lots of discussions around the pricing of spectrum, and it doesn't look like parties have reached a sensible agreement at this stage. Do you think that that's likely to happen in the near term or would it be something that continues to be a problem in terms of investment going forward?

Vittorio Colao

Nick, do you want to take those questions?

Nick Read

In terms of pricing, yes, pretty much this year it's stabilised. I think we're increasingly seeing signs of price hardening in the marketplace, with a lot of promotional minutes being removed from the marketplace, so I think you'll see that as a trend through quarter four into next fiscal year, in addition, obviously, to the data growth and probably towards the latter end of next year in terms of, again, average base size growing again post the new subscriber verification rules.

In terms of spectrum, look: we have a spectrum auction on the slate for March. I think we have been totally consistent for the past year in saying a number of the circles, both in the November auction, which, for all intents and purposes, failed, and this auction are overpriced relative to international standards, so I think we have to see what the demand is in this particular auction.

Ottavio Adorisio, Société Générale

I have a couple of questions. The first is on free cash flow. Basically, we don't have a cash flow statement, so it's different to reconcile your adjustments to get to a 2.7% increase net of forex or M&A. Looking at the fact that most of the cash flow is euro-dominated and with the euro down only 6%, I basically get only £90 million impact negative. Considering that the negative impact year on year is £270 million, I was wondering if M&A, basically the impact, this £270 million, if it's all due to Cable & Wireless.

The second is a bit more strategic and it's about the Red tariffs. Now, there's been a lot of talk during this conference about the Red tariffs and what they can do to the competitive environment. Now, let's say that Red tariff will ultimately be successful in gaining market share, my question is: what will stop competitors offering the same and triggering competitive downwards re-pricing, with the final outcome being more value being transferred out of the industry towards consumers?

The third is just a clarification; it's not a question. I heard Andy mentioning towards his speech that, due to drags from MTRs, in the next quarter we could have a 150bps deterioration in year-on-year growth from service revenues. Now, I don't know if this is correct or not. Could you please clarify?

Vittorio Colao

Why don't I take the Red answer and then I leave the others to Andy? Again, Ottavio, I have to go back to my answer to Robin: life is not either/or. You have to do certain things but, of course, other things also have to be right. The point you raise is applicable to everything. What makes it impossible for competitors to be below you, whatever you do, is always true. So yes, of course, we can all go to Red tariffs. Everybody could get into the American model and everybody can eventually race to the bottom. It can happen but at least what you have been doing here, you are taking away all the disintermediation risk from the over-the-top, you make the customers happy and more loyal, more grateful for what they get, and you get the customers focused on data and data usage, which is the future of our industry, and not metered SMS and minutes usage, which is not.

So, as I said in my earlier answer, it's never only one thing that makes you win. It's about how you run retail, it's about the network, it's about the services that you add, it's about cooperation with other parties. We have not discussed in this call but we are doing a lot of cooperation with Wi-Fi providers. The London Underground now will be enabled through Virgin. We do a lot of cooperation with content and media owners. Here in the UK, we announced *The Telegraph* but we have similar things everywhere else. It's never a single thing that makes you unbeatable, because, by definition, there's not a single thing that cannot be copied. We have to take a broader view and the industry-structure point that Robin raised before is also right.

Andy, on free cash flow and impact?

Andy Halford

The free cash flow is about £250 million lower in absolute terms. I'd say about a third of that is M&A and two thirds is FX. The FX is not limited to the euro; it's also the rupee, which was slightly higher than the euro rate of change, and South Africa and the rand there also.

In terms of the other question, the leap-year and MTR quarter-on-quarter effect, in aggregate, yes, about 1.4 percentage points of additional drag compared with the third quarter.

Stephen Howard, HSBC

I had a couple of questions on the regulatory environment. Firstly, what do you think the implications would be if, as many of the incumbents are demanding, the EC was to decide that it wasn't any longer necessary to subject Market 6 – that is the market for terminating segments of leased lines – to *ex ante* regulation? What I'm really interested in here is: can you still cope on the backhaul side of things?

On the topic of convergence, obviously one of the options that's been discussed today is negotiating wholesale access to fibre. I recall, Vittorio, at the ETNO conference in Brussels last year, you threw down the gauntlet to the incumbents, challenging them to deliver on equivalence. What I'd like to know is: are you more or less confident than you were back then that the regulations are actually going to be enforced? Certainly, those comments on Spain suggest you're no more confident.

Vittorio Colao

Yes, Stephen, I know you are a very acute observer of what's happening on an incredibly important area, which is where business crosses regulation. On the first point, Market 6, we have, again, different situations in different markets, which is why we always have a self-build component of it, which, today, Steve, is…?

Steve Pusey

81% self-built to date.

Vittorio Colao

Which is pretty relevant, which means that we, of course, take advantage of good conditions, where good conditions are there, but we cannot 100% rely on good conditions. To be honest, Cable & Wireless Worldwide, as you know, was part of the story. There are organic investments that we're making in South Africa, in India; of course, there's the TelstraClear thing in New Zealand, so every market has its own mix of I rely on good commercial deals but, of course, we also need an alternative, which we have to build ourself.

Confidence in Spain: I don't know. I cannot comment on specific situations. There are regulators and incumbents who have very different positions. Before Christmas, we made very clear, in a very formal way, our position to all of the incumbents in Europe. We've got very, very different answers. To be honest, there are some with whom I am pretty confident we will reach a good agreement, and others that I'm less confident, but again, these are open negotiations and discussions. I don't think it would be fair to them to put in the public, the good and the bad.

So, that's more or less my answer. I see that some things are changing, but again we're not just relying on the protection from rules.

Guy Peddy, Macquarie Securities

Just a couple of things. Vittorio, do you think you actually have the tools to compete, for example, in markets like Spain and Germany, which seem to be where the competitors are upping the ante currently? You talked earlier about competitive headwinds, and headwinds would tend to suggest you don't have the tools to compete.

On a secondary point, this week both KPN and Swisscom signalled that trying to grow revenues in a new data environment is a lot more expensive than delivering legacy revenues; i.e. margins are only going down in the future. Is that something that you're seeing as well, especially with, for example, the Red transition that, basically, is going to be significantly margin-dilutive going forward?

Vittorio Colao

I think, Guy, we have two different things here. When I talked about headwinds, the headwinds are really more the economy and our expectation for the conditions in not all but most of the European countries next year. When you talk about tools to compete, I am confident that I will have everywhere the tools to compete. Germany, more confident than Spain, but just because regulatory and incumbents' behaviours are different. But I will have them in Spain as well. As I said, take Portugal, which, in theory, seems the more closed environment. I told you we are going to invest tens and tens of millions, and we're going to have them, or maybe something will change. But physically we are in a RFP/RFQ process, and we are selecting our new wave of partners and vendors for fibre and that type of technology. So, I will have the tools to compete. The headwinds, there's not a lot I can do on the European economy.

On margins, I believe that the comments from KPN are probably of a different nature than the comments from Swisscom. I can talk about Swisscom because we talk a lot to them; they're a partner market and we were there, by coincidence, a month ago. Clearly, they have a point in saying that all new cloud-based and let me say unified services – I don't call them convergent because it's the network that converged but the services are unified – tend to have lower percentage margins, but we need to look at the absolute margins. If these are additive and we can drive revenue from services, it's good. It's a little bit like our VGE profitability, where some customers have a lower percentage profitability but we serve them in 80 markets, and we have services on top of basic connectivity. Therefore, it's a good thing. Directionally, I tend to agree with the Swisscom comments. I don't know about KPN, because they, again, seem coming from a different motivation or reason, I would say, which is why we have to go into the services that are really worth.

David Wright, Deutsche Bank

Thanks, guys, for taking the call. I know you've got a lot today. It's probably following up a little from Guy, to be honest. It seems to me that, from a convergence perspective, you are somewhat reactive at the moment; for instance, Spain, Portugal. Obviously, the Red tariff is still very much a mobile-only proposition, so is that the case? Are you reactive to convergence and not proactive? Is that because proactivity could possibly mean lower returns? That obviously feeds back to maybe the message you gave to Guy. Is the converged service something that threatens your returns and that's why you will only be reactive to it?

Vittorio Colao

Yes, a very interesting question, because I understand the psychology of it. Let me say: first of all, in Portugal, we already physically connected, through an agreement with Sonaecom, about 200,000 homes. We have about 30,000-40,000 IPTV customers, which means that we already started way back, I think three years ago, the convergence – the unified-service thing. We had put the basis for that. We have not pushed, because a) the regulation was different, or at least the framework was supposed to be different, and, quite frankly, there was no market pull. So, we put the basis. We have experience. We didn't push because there was not a market pull. As I said in my speech, the more this is stimulated – and, of course, it has to be stimulated by the guys who are bigger in this domain – the more there will be demand and we will go there.

In Germany, we have probably 200,000 or something – a little bit less than 200,000 – IPTV customers. We have a network, we have offers. Again, if the market shows more interest, more demand, more appeal for that, we are there. And the same applies to Spain and the same applies to Italy. So, we have been providing services for the last five years in all those markets. The degree of intensity of investment is just a function of market demand.

A small correction: it's not true that Red does not offer fixed. It's true that it does not offer fixed everywhere but, for example, in Spain, it does and, in Portugal, it will very shortly.

So, I think it's true that we are reactive in the sense that we react when we see that there starts to be demand in the market. We are not reactive out of fear; we're reactive because we need to put our money where the best return is and, so far, the best return was on broadband and data and HSPA.

David Wright

So, just essentially, that suggests that the best return is with the mobile side, so implicitly convergent services are –

Vittorio Colao

I don't know, because you need to… It depends on price levels. Again, the price level at which these services can be set could be a low discount. There was a note that was written by somebody this week – I can't remember who – who said, 'Well, it could turn out just to be big discounting at the end of the day, or it could turn out to be the American model again', where people pay more and more for their cable connections, for their video-on-demand services, for their cloud repositories, and enterprises pay more because they basically rely on security, they rely on hub-hosting, and all these things. Again, you can see two scenarios: one is a pure discounting scenario; one is an enrichment and improvement scenario.

It is normal that this is driven by incumbents. I don't feel ashamed or anything in saying, 'Fine, if BT and Telefónica push the market in that direction, and there is customer acceptance, I hope it will be an enrichment story and not a discounting story.'

Closing Comments

Vittorio Colao

Thank you. I think we debated almost everything. Let me just summarise the, I would say, three key messages from our point of view:

- One, Vodafone 2015 continues to be good performance, albeit a bit slowing in emerging markets and data, which is the key strategic thing.
- We keep seeing headwinds in the economy, especially in Europe, and for that we continue to work on our cost reduction and efficiency programmes.
- And third takeaway, we are actively working on providing unified services in all the markets where demand will be there, with a variety of solutions, depending on the local conditions.

Thank you very much for your attention today.